Chapter 27 Monetary System Practice Test

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

1. Fiat currency
   a. is used as a medium of exchange.
   b. is equivalent to wealth.
   c. is backed by gold.
   d. Both b and c are correct.

2. Some economies used salt as money. For such economies salt
   a. had no intrinsic value.
   b. had an intrinsic value and served as a medium of exchange.
   c. served as fiat money.
   d. Both b and c are correct.

3. Since the U.S. government has decreed that U.S. currency is legal tender,
   a. people are more likely to accept the dollar as a medium of exchange.
   b. the government must hold enough gold to redeem all currency.
   c. people may not make trades with anything else.
   d. All of the above are correct.

4. Checking accounts include
   a. currency.
   b. demand deposits.
   c. savings accounts.
   d. None of the above is a checking account.

5. Credit cards are
   a. used as a method of payment.
   b. part of the M1 money supply.
   c. equivalent to debit cards.
   d. a method of deferring payment.

6. Credit cards
   a. are part of the money supply.
   b. defer payments.
   c. are a store of value.
   d. have led to wider use of currency.

7. The Federal Reserve does all except which of the following?
   a. make loans to individuals
   b. control the supply of money
   c. control the value of money
   d. regulate the banking system

8. When the Fed wants to change the money supply, it most frequently
   a. conducts open market operations.
   b. changes the discount rate.
   c. changes the reserve requirement.
d. issues Federal Reserve notes.

9. If the reserve ratio is 10 percent and a bank receives a new deposit of $10, this bank
   a. must increase required reserves by $1.
   b. will initially see its total reserves increase by $1.
   c. will be able to make new loans up to a maximum of $1.
   d. All of the above are true.

**Table 27-1**
Use the balance sheet for the following questions.

<table>
<thead>
<tr>
<th>First Bank of Erewhon</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required Reserves</td>
<td>$20.00</td>
<td>Deposits</td>
</tr>
<tr>
<td>Loans</td>
<td>$80.00</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

10. Refer to Table 27-1. The reserve ratio is
   a. zero percent.
   b. 20 percent.
   c. 80 percent.
   d. 100 percent.

**Table 27-2**
Use the balance sheet for the following questions.

<table>
<thead>
<tr>
<th>Last Bank of Hope</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>$2,500</td>
<td>Deposits</td>
</tr>
<tr>
<td>Loans</td>
<td>$7,500</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

11. Refer to Table 27-2. If the reserve requirement is 10 percent, this bank
   a. is holding excess reserves of $1,000.
   b. is in a position to make a new loan of $1,500.
   c. has total reserves of $10,000.
   d. has less reserves than required.

12. In Maerica the money supply is $80,000 and required reserves are $20,000. Assuming that people
    hold only deposits and no currency, and that banks hold only required reserves, the required reserve
    ratio is
    a. 40 percent.
    b. 25 percent.
    c. 20 percent.
    d. 5 percent.

13. If the reserve ratio is 100 percent, depositing $500 of paper money in a bank will increase the money
    supply by
    a. $500,000.
    b. $50,000.
    c. $5,000.
    d. None of the above is correct.
14. To increase the money supply, the Fed could
   a. sell government bonds.
   b. increase the discount rate.
   c. decrease the reserve requirement.
   d. Both a and c are correct.

15. To decrease the money supply, the Fed could
   a. sell government bonds.
   b. increase the discount rate.
   c. increase the reserve requirement.
   d. All of the above are correct.

16. If the discount rate is lowered, banks choose to borrow
   a. more from the Fed so reserves increase.
   b. more from the Fed so reserves decrease.
   c. less from the Fed so reserves increase.
   d. less from the Fed so reserves decrease.

17. If the reserve ratio is 10 percent, and banks do not hold excess reserves, when the Fed purchases $10 million of government bonds, bank reserves
   a. increase by $10 million and the money supply eventually increases by $100 million.
   b. decrease by $10 million and the money supply eventually increases by $100 million.
   c. increase by $10 million and the money supply eventually decreases by $100 million.
   d. decrease by $10 million and the money supply eventually decreases by $100 million.

18. If the reserve ratio is 25 percent, and banks do not hold excess reserves, when the Fed sells $40 million of bonds to the public, bank reserves
   a. increase by $40 million and the money supply eventually increases by $100 million.
   b. increase by $40 million and the money supply eventually increases by $160 million.
   c. decrease by $40 million and the money supply eventually decreases by $100 million.
   d. decrease by $40 million and the money supply eventually decreases by $160 million.
Chapter 27 Monetary System Practice Test
Answer Section

MULTIPLE CHOICE

1. A
2. B
3. A
4. B
5. D
6. B
7. A
8. A
9. A
10. B
11. B
12. B
13. D
14. C
15. D
16. A
17. A
18. D